INSTITUTE FOR PODIATRIC EXCELLENCE & DEVELOPMENT

PRACTICE FOR SALE

Bob Sold His Practice and Mike Didn't: Why?

What makes a podiatric medical practice marketable?

BY MIKE CROSBY

This article, written exclusively for PM, appears courtesy of the Institute for Podiatric Excellence and Development (IPED). IPED's mission is to motivate, inspire, and synergistically bridge the gap between students, residents, new practitioners, and seasoned veterans in the field of podiatric medicine. They are committed to the idea that mentors with passion to share and mentees eager to learn make a powerful combination that allows IPED to bring and renew a full life to podiatric physicians, their practices, and their well-being throughout the U.S. and beyond.

The foundation for the development of value within a podiatric medical practice is through infrastructure. The infrastructure includes people who are well trained, motivated, and work cooperatively together in an environment designed to promote their personal and professional development. While podiatric medical practices are not large organizations, there is opportunity for training and development to occur on a consistent basis, which will improve the overall operation and performance of the practice. Secondly, the process for the treatment of patients for various clinical conditions should be defined in both a technical format and a format designed to support the processing of patients through the office.

These protocols should be for the most common clinical conditions presented in the office and provide a clear treatment pathway that both the physician and office assistant can clearly understand and follow. Thirdly, the organization's structure—with roles and responsibilities and reporting relationships—should be clearly defined and delineated. Job descriptions and job responsibilities, when defined, allow for accountability for various functions and responsibilities.

Each podiatrist should evaluate the scope of service in which he or she is competent and maintain a practice within this scope of service.

Scope of Service

Each podiatrist should evaluate the scope of service in which he or she is competent and maintain a practice within this scope of service. While state laws allow for various levels of care, including forefoot, rear-foot, ankle, and in certain states, care extending to portions of the leg, the key issue is: does the training of the physician support the services rendered within the practice and the local medical community? By determining this, a physician can become known within the community for medical treatment and be able to provide referral resources with appropriate information. Physicians should also recognize the potential limitation of medical services within the prac-

Continued on page 124

Bob Sold Practice *(from page 123)*

tice in conjunction with the State's "scope of practice" definition.

Compliance Plans

Additionally, each practice should have a compliance plan for Medicare and other regulatory agencies (e.g.,OSHA, HIPAA), which will allow them to function in an efficient and compliant manner. Included in the evaluation of risk for practices is the managed care environment; practices which operate within a highly-managed market will need to evaluate the status of their payor contacts, their ability to maintain their status on payor panels, and the need to affiliate with IPAs or other contracting organizations in the market.

Location

The location of a practice plays an important role in the overall view and perception of the practice within the market. Key considerations in the location of a practice also include the office aesthetics, how the practice is viewed from the street, the entrance and exit, the overall appearance of the facility, and the equipment. In addition, nearness to other medical offices is a critical factor both for patient convenience and the perceived credibility of being part of the local medical and professional community. In some cases medical professionals are located on hospital campuses. These factors should be evaluated when considering the office location as a prime asset in building value within the overall practice setting.

CHART 1:
Factors Which Influence a Practice's Value

Factors	Positive Influence	Negative Influence
Balanced Services	Yes	
Staffing	Stable and well trained	High turnover and untrained
Protocols	Patient care and staff service protocols in place	Lack of "how" care is delivered and "how" staff support the doctor
Benefits	Yes—supports staff retention	
Location	Yes	Neighborhood can impact—changing demographic
Brand	Yes	Lack of recognition
Reputation of provider	Yes	Legal issues surrounding practice
Rent	No	If long term lease in place that prohibits growth
Ancillary Services	Yes	
Non-covered services	Yes	Purchaser may not be trained in services and will not include in purchase

Referral Base

As a specialist, the podiatrist should be considered "the doctor's doctor." Therefore, the development for a strong referral base is extremely important when developing a practice with significant transfer value. Physicians should develop hospital privileges and maintain them in order to be recognized within the community; this will allow them to have a visible and active presence within the hospital setting. A key factor in any podiatrist's success is a working system of doctor-based referrals: the DPM must be able to provide timely and consistent follow-up to referring physicians so that the referral source can keep abreast of his patient's ongoing treatment progress.

A critical component is making sure that doctors "get their patients back" once referred to the specialist. One last consideration for referral sources is managed care plans. In today's environment, most individuals look for physicians who are members of their managed care plans. Therefore, being listed as a provider in a managed care directory is a critical component for referrals of individuals needing specialty care.

Reputation

The capstone to the value attributes is practice reputation. In today's environment, it is extremely critical that physicians maintain their reputation from both a practice/clinical and name standpoint. Practices that are not designated by the names of their physician owners have more transfer value because individuals are referred to the practice instead of to a specific physician. Although patients will develop individual relationships with specific physicians, patients will indicate to others that

Continued on page 126

Bob Sold Practice *(from page 124)*

they use a particular practice versus a particular physician.

Customer Service

The level of customer service and ease of access to a physician's office are key success factors to patients. When calls are received and answered in a prompt and courteous manner, patients have a positive impression of the practice upon first contact. Patients who do not have to wait significant amounts of time to see providers, and providers who are respectful of patients' time, are critical factors in allowing a practice to both retain its patient base and increase in value.

We have reviewed the key factors in building value in a podiatric medical practice. These are issues that we are able to evaluate, by practice and/or physician, allowing physicians to assess their ability to increase their practice's value attributes. Practices should continue to evaluate their infrastructure, practice environment risk, location and market conditions, referral base, and reputation in an objective format. The continual review and critical analysis of these key factors will allow a physician to increase his practice's value.

Why Practices Sell

If these are the factors that make a practice valuable, then why is it so difficult to sell a practice? As mentioned in the title, Bob sold his, Mike didn't. The following outline will help to explain why practices sell:

Bob lives in a market that has many options for foot care. However, he has positioned his practice to take advantage of the market and provide services that meet the needs of the population in his market. He has flexible office hours, his office is contemporary and easily accessible. He has re-invested in his office through technology, training, and consistent messaging to his patients. Bob seeks to address the needs of his patients through education and training and provides resources for the population to use to remain healthy. Bob has diversified his practice services to accommodate the many needs of the market. He has trained his staff in providing educational materials to patients to inform them of the services and resources the practice offers. Further, Bob remains committed to continuing to refresh his skills and seeks to collaborate with other providers within the market.

Bob's service mix provides him with a revenue stream that can be duplicated/replicated. He provides services that are within the mainstream of podiatric care. He has a mix of office-based services (which include palliative care, DME, and surgical care—both bone and soft tissue—and non-covered self-pay products and services. All of these combine to provide Bob with a revenue stream that rewards his productivity.

Bob manages his overhead. He

Continued on page 127

CHART 2:

Impact of Cash Flow on a Practice's Value

Category		Cash Flow	Value Impact
Revenue	Declining	Negative	Diminishing
Service Mix	Varied	Positive	Positive
Staffing	Stable	Positive	Positive
Rent	Lease in place	Positive	Positive (reduces risk)
Employee Benefits	Market-based	Positive	Positive
Supply Cost	Group Purchasing in place	Positive—reduces cost	Positive
Staff Training	Ongoing training and support provided	Positive	Positive
Equipment	Updated equipment in place	Positive	Positive
Practice Debt	Loans for business operations	Impact on growth	Negative if not providing growth for practice

Bob Sold Practice (from page 126)

evaluates the staffing needs and maintains a staffing ratio of approximately 4:1. He provides benefits to his employees to support his staff retention plan. He has joined a group purchasing initiative to allow him to benefit from volume discounts negotiated for the benefit of the group (this can include both supplies and employee benefits). Bob continually monitors his cost for utilities and manages the fixed expenses by evaluating their impact on an annual basis. The key: Bob is active in managing his practice and has monitors in place to respond to change, both positive and negative.

Bob has asked for his practice to be evaluated for sale. The evaluator of the practice makes a series of observations (Chart 1).

Additionally, the evaluator will review and value the cash flow of the business after adjustments for personal expenses. The following is a list of items that can be adjusted:

- Normalized compensation
- Salaries for non-active employees
- Excess rent
- Excess payments for dues/clubs/etc.
- Excess travel expenses
- Under-payment or no payment for rent
- Lack of proper staffing level
- Unusually low compensation levels
- One-time expenses not considered "ordinary" in the course of business
- Personal expenses paid by company (not afforded to a non-owner)

The cash flow of the business is the lifeline and the basis for the value of the practice. The factors above impact the risk analysis of the practice.

Now, let's look at Mike's practice. He was not able to sell it. Why?

Why Practices Don't Sell

Mike's practice is located in a similar neighborhood. The practice has continued to rely on a base of patients who have required similar services for many years. The key for Mike has been the inability to seize the opportunity to enhance and grow the practice in recent years through community involvement and integration into the service provider network. Foundationally, Mike's lack of commitment to introducing new/additional services which would enhance the practice's overall ability to attract new patients has prevented his practice from growing and increasing the attraction of new patients.

In recent years, the overall productivity of the practice has dropped. This has caused the practice to diminish in value due to the impact on cash flow. Mike's decision to wait to sell has reduced his ability to obtain the maximum value he developed during the life cycle of the practice. The sale process can be an elongat-

Continued on page 128

Bob Sold Practice *(from page 127)*

ed process, and the ability to find a buyer who wants to be in this specific market takes time. The average time for a practice to sell is between nine and fifteen months. This takes into account two employment cycles (since most contracts start in July—after residency is finished.) The key issue facing the sale in this situation is the ability of a third party lender to finance a practice with a decreasing revenue stream.

Mike has a high staff turnover. This impact on the overall value is important due to the lack of consistency in the patient care process. Additionally, high turnover impacts the patients' confidence in the provider's office. It is important to remember that, most often, patients encounter the staff before the physician, and this "first" impression is hard to change. An educated buyer understands the importance of the relationship between the staff and the patients.

The office has not been well maintained. The facility has not been refurbished in many years, and there has been little investment in current technology. These impact the ability to sell in the following manner: 1) Buyer's perception of spending money on a practice that has to overcome a physical image issue, 2) A large investment in technology necessary to place the practice in a "current" technological position 3) Overcoming a status quo for the office that will attract new patients.

The key issues facing a provider looking to sell a practice are outlined in Chart 2.

The question becomes: with whom do you identify? Have you made the investments, developed the structure, maintained skills, and monitored your cash flow? If not, will you take the time to make the commitment to investing in yourself and your practice to obtain a return on your hard work? You can take advantage of the time and resources you presently have to invest that will allow you to sell your practice and obtain a reward for your time and energy spent during your practice life. **PM**

Mike Crosby is President of Provider Resources, LLC. Mr. Crosby has more than 25 years experience in proven leadership with provider organizations, including hospitals, physicians and physician groups, and physician practice management companies. For the past twenty years, Mr. Crosby has been working exclusively with podiatric physicians in evaluating operational concerns and providing solutions yielding a positive return and improved cash flow. In each engagement, Mr. Crosby works closely with the physician leadership to accomplish the end result with aligned goals and incentives. Mr Crosby can be reached at MCrosby518@gmail.com.